1.6 Multinational companies(MNCs)

- Multinational companies
  - A multinational company(MNC) is an organization that operates in two or more countries
  - MNCs have grown considerably over time due to the benefits of being such super-sized businesses
- Reasons why businesses become MNCs
  - Increased customer base
  - Cheaper production costs (especially inexpensive labor)
  - Economies of scale
  - Brand development and brand value
  - Avoid protectionist policies
  - Spread risks
- Host countries
  - A host country is any nation that allows a multinational company to set up in its country
  - The impact on host countries can be beneficial or harmful
- Impacts of MNCs on host countries
  - Positive
    - Job creation

      > Although some MNCs have been criticized for paying 'low' wages to workers in poorer countries, MINCs typically offer higher pay than local firms in these countries

    - Higher national income

      > MNCs help to increase the host country's GDP by creating consumption expenditure (as more workers are in paid employment) and by boosting export earnings for the host country, which also improves the nation's average standard of living

    - Knowledge and technology transfer

      > MNCs have introduced new skills and technologies in production processes to host countries, the efficiency of production is raised

    - Increased competition

      > MNCs intensify the degree of competition in the host country. This should lead to greater efficiency gains to the benefit of domestic customers

  - Negative
    - Job losses

      > Competition can be a setback if it means that local firms are unable to compete and end up making people redundant or even having to close down

    - Repatriation of profits

      > This can have a negative effect on the host country's tax revenues and on the size and the frequency of foreign direct investment (FDI) as the profits do not remain in the host country

- Social responsibilities

  > MNCs attempt to grow and exploit the planet's scarce resources. host nations are often unable to control the actions of large MNCs, due to their sheer market power

- Competitive pressures

  > Due to fierce competition, domestic firms might be forced into reducing prices to remain competitive